

Message Text

PAGE 01 MOSCOW 15807 061821Z

71

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INFO AMEMBASSY BUCHAREST

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AMEMBASSY SOFIA

AMEMBASSY PRAGUE

AMEMBASSY WARSAW

AMCONSUL LENINGRAD

AMEMBASSY BERLIN

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USDOC FOR BEWT (STROH)

FOR EUR/SOV (EDGAR)

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SUBJECT: DOWNEY CONVERSATION WITH DEPUTY MINISTER OF FOREIGN

TRADE MANZHULO

1. SUMMARY: DAS DOWNEY MET OCTOBER 4 WITH DEPMIN MANZHULO AT SOVIET MINISTRY OF FOREIGN TRADE FOR GENERAL AND WIDE RANGING CONVERSATION ON PROBLEMS OF BILATERAL TRADE WITH SOVIETS. MAJOR TOPICS DISCUSSED WERE: (1) TURNDOWN IN NEW ORDERS BY SOVIETS FOR LIMITED OFFICIAL USE
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PAGE 02 MOSCOW 15807 061821Z

U.S. NON-AGRICULTURAL GOODS AND EQUIPMENT; (2) LACK OF USG CREDITS; (3) U.S. PRESS TREATMENT ON SUBJECT OF SOVIET EXTERNAL DEBT; (4) PROBLEMS SOVIETS HAVE IN EXPORTING TO U.S., INCLUDING MFN, AND (5) LONG-TERM OUTLOOK. MANZHULO ALSO RAISED PROBLEM SOVIETS ARE

APPARENTLY HAVINGIN OBTAINING VISAS FOR THEIR TRACTOR PEOPLE IN U.S. DESPITE FACT THAT NOT MANY POSITIVE FACTORS COULD BE FOUND IN BILATERAL TRADE PICTURE, MANZHULO WAS WARM, RELAXED AND TOTALLY CORDIAL TO HIS VISITOR. END SUMMARY

2. DEPUTY ASSISTANT SECRETARY OF COMMERCE DOWNEY, MET WITH SOVIET DEPUTY FOREIGN TRADE MINISTER MANZHULO OCTOBER 4 FOR COURTESY CALL AND GENERAL DISCUSSION OF BILATERAL TRADE AND ECONOMIC MATTERS. IN COURSE OF 90-MINUTE DISCUSSION MANZHULO MADE FOLLOWING POINTS ON TOPICS INDICATED.

(A) US/USSR TRADE: TURNDOWN IN NEW ORDERS FROM U.S. WAS NOT TO BE CONSTRUED AS A POLITICAL DECISION ON PART OF SOVIETS, NOR WAS IT RELATED TO ANY SOVIET HARD CURRENCY PROBLEM. NEVEDRTHELESS, MANZHULO EXPRESSED EXPECTATION THAT, UNLESS SITUATION CHANGES, THERE WILL BE NO EQUIPMENT DELIVERIES INCLUDED IN U.S. CONTRACTS WITH SOVIETS PAST 1980 (MOSCOW 13989). ACCORDING TO SOVIET STATISTICS, HOWEVER, 1976 WILL BE RECORD YEAR IN TERMS OF VALUE OF US/USSR TRADE -- \$2.5 BILLION -- MAINLY DUE TO AGRICULTURAL DELIVERIES FROM U.S. AS REGARDS FUTURE TRADE, MANZHULO SAID THAT REASON NO INCREASE IS ENVISAGED IS QUITE SIMPLE: LACK OF OFFICIAL USG CREDITS.

(B) CREDITS: MANZHULO SAID QUESTION REMAINS THAT IF BOTH SIDES STILL WANT TO DEVELOP ECONOMIC RELATIONS THEN "NORMAL" CONDITIONS MUST BE ESTABLISHED. WHEN EX-IM BANK CREDITS FROM USG WERE AVAILABLE YEARS AGO, A SIGNIFICANT "IMPULSE" HAD BEEN GIVEN TO OVERALL IDEA OF BILATERAL TRADE; WITHOUT IT AMERICAN GOODS WOULD NOT HAVE BEEN PRICE-COMPETITIVE. NOW, HOWEVER, THAT IMPULSE HAD LOST ITS FORCE AND TO DEVELOP FORWARD MOMENTUM AGAIN A NEW INITIATIVE IN REGARD TO USG CREDITS MUST BE FORTHCOMING. IN RESPONSE TO DOWNEY'S COMMENT THAT EX-IM BANK CREDITS NEAR CURRENT MARKET INTEREST RATES WOULD PROVIDE LITTLE PRICE INCENTIVE TO BUY IN U.S., MANZHULO APPEARED TAKEN ABACK AND SAID THAT USSR DID NOT "MIND" RECEIVING CHEAP CREDIT. SUBSEQUENTLY, HOWEVER, HE STATED THAT GIVEN THE SIZE AND SCALE OF MOST SOVIET PROJECTS AND PREDILECTION OF GOSBANK TO DEAL WITH OTHER STATE BANKS, A RESTORATION OF EX-IM BANK CREDITS WOULD STILL PROVIDE A FILLIP TO OVERALL TRADE.
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PAGE 03 MOSCOW 15807 061821Z

MANZHULO REMARKED THAT PRIVATE WESTERN (U.S.) BANKS WERE ALSO MORE WILLING TO LEND WHEN EX-IM BANK WAS BEHIND A GIVEN PROJECT THAN WHEN ITS SUPPORT WAS ABSENT. A SECOND PROBLEM IN U.S.- SOVIET TRADE IS THAT USSR MUST BE GIVEN MEANS TO REPAY CREDITS -- AT PRESENT IT IS LIMITED TO RAW MATERIALS AND MACHINERY WHERE THERE IS NO DISCRIMINATORY DUTY.

(C) CAMPAIGN AGAINST SOVIETS IN U.S.: ON A RELATED ISSUE, MANZHULO TOLD DOWNEY THAT SOVIET GOVERNMENT WAS UNDER IMPRESSION THAT A "CAMPAIGN" WAS BEING MOUNTED IN U.S. AGAINST SOVIET UNION AND OTHER COMMUNIST COUNTRIES FOR HAVING GOTTEN TOO HEAVILY INTO DEBT. MANZHULO EXPRESSED HOPE THAT THIS "CAMPAIGN" WOULD NOT HAVE

AN ADVERSE EFFECT ON US/USSR TRADE PROSPECTS AND NOTED THAT IN NOT A SINGLE CASE HAS THE USSR FAILED TO MAKE SCHEDULED PAYMENTS TO WESTERN BANK LENDERS. DOWNEY SAID HE HAD HEARD NO SERIOUS QUESTION OF SOVIET CREDITWORTHINESS FROM ANY U.S. BANKER.

(D) PROBLEMS OF EXPORT TO U.S.: IN RECITING DIFFICULTIES HIS MINISTRY HAD IN CONVINCING SOVIET MANUFACTURING ENTERPRISES TO PRODUCE GOODS FOR EXPORT TO THE U.S. MANZHULO PRAISED POLISH GOLF CART ANTI-DUMPING DECISION OF RECENT MEMORY. USING AS EXAMPLE A BICYCLE PLANT WHICH SOVIETS HAD CONSIDERED BUILDING FOR U.S. EXPORT MARKET AND SUBSEQUENTLY ABANDONED BECAUSE OF THEIR CONCERNS OVER LACK OF MFN, MANZHULO SAID IT WAS THIS LACK OF CONFIDENCE ON PART OF SOVIET

MANUFACTURERS THAT CAUSED THEM TO DRAW BACK FROM COMMITTING RESOURCES TO U.S. MARKET. MANZHULO SAID THAT TEN-SPEED BICYCLES WHICH SOVIETS HAD IN MIND WOULD BE PRODUCED SOLELY FOR EXPORT SINCE THERE WAS NO DOMESTIC DEMAND AND THEREFORE REQUIRED A "SERIOUS MARKET" ABROAD BEFORE THE PROJECT COULD GO FORWARD. HE ALSO NOTED IN PASSING THAT GENERAL MOTORS HAD MADE A PROPOSAL RECENTLY FOR "REAL COOPERATION" IN TRUCK PRODUCTION BUT THAT THIS TOO HAD FOUNDERED IN PART BECAUSE OF PROBLEMS OVER MFN. DOWNEY COUNTERED THAT SELLING TO A MARKET ECONOMY COULD NEVER BE ASSURED IN ADVANCE. MFN IS NO GUARANTEE, JUST AN EQUITABLE ENTRY TO THE MARKET. FINALLY, IN BRIEF EXCHANGE OVER SOVIET DUMPING PROBLEMS WITH CANADA, MANZHULO SAID WITHOUT ELABORATION THAT THIS PROBLEM HAD BEEN RESOLVED.

(E) LONG TERM OUTLOOK: MANZHULO EXPRESSED VIEW THAT BILATERAL COOPERATION IN ECONOMIC AND TRADE SPHERE WOULD GO FORWARD EVENTUALLY DESPITE PERIODIC UPS AND DOWNS.

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PAGE 04 MOSCOW 15807 061821Z

3. MANZHULO ALSO EXPRESSED CONCERN OVER ALLEGED DIFFICULTIES REPRESENTATIVES OF SOVIET TRACTOR INDUSTRY (FTO TRAKTOROEKSPORT) WERE HAVING IN OBTAINING VISAS FOR EXTENDED STAYS IN U.S. HE REFERRED TO RECENT MRKTUMOV/ARMITAGE CONVERSATION ON SUBJECT AND SAID THAT IT WAS SHAME DIFFICULTIES OF THIS NATURE HAD TO ARISE SINCE SOVIETS WERE HOPEFUL THAT SOMETHING COULD BE DONE WITH U.S. FIRMS BY WAY OF COOPERATION IN TRACTOR INDUSTRY. DOWNEY RESPONDED BY NOTING THAT IN GRANTING VISAS TO SOVIET PERSONNEL WE TRIED ALWAYS TO OPERATE UNDER PRINCIPLE OF RECIPROCITY. MANZHULO ARGUED THAT SINCE ALL SOVIET DECISIONS ARE MADE IN MOSCOW, U.S. TRACTOR PRODUCERS DID NOT NEED TO HAVE REPRESENTATIVE IN OTHER SITES. ALTHOUGH HE WAS NOT AWARE OF SPECIFIC CASE IN POINT, DOWNEY IMPLIED THAT IN VIEW OF MUCH LARGER SOVIET COMMERCIAL PRESENCE IN U.S. THAN THAT OF AMERICAN BUSINESSMEN IN USSR MATTER OF TRAKTOROEKSPORT VISAS COULD BE SOMEHOW CONNECTED. (FYI: WE NOTE THIS IN VIEW LIKELIHOOD THAT SOVIETS WILL RAISE MATTER DURING UPCOMING JOINT COMMISSION MEETINGS IN WASHINGTON. EMBASSY RECORDS DO NOT REVEAL NATURE OF DIFFICULTY TO WHICH MANZHULO HAD REFERENCE, BUT PERHAPS MOSCOW 15591 OF OCTOBER 4, 1976, REQUESTING VISAS FOR SENIOR TRAKTOROEKSPORT OFFICIALS

IS GERMANE TO ISSUE. END FYIL

4. COMMENT: DESPITE GENERALLY PESSIMISTIC TONE OF DISCUSSION,
MANZHULO BETRAYED NO OVERT SIGNS OF OFFICIAL IRRITATION AND WAS
RELAXED AND TOTALLY CORDIAN THROUGHOUT DISCUSSION.
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Message Attributes

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